

Agricultural Bank of China (601288 CH)

NIM and asset quality outshine weak topline growth

ABC reported 9M19 net profit of RMB 180.7bn, up 5.3% YoY and accounting for 85.5%/86.0% of CMBIS/consensus full-year estimates. In 3Q19, PPOP declined by 2.3% YoY, due to lower non-interest income (-4.9% YoY) and higher opex (+4.5% YoY). However, the stronger-than-peers provision buffer enabled the Bank to set aside less impairment charges (-14.9% YoY) and ensure a pick-up in bottom-line earnings growth to 6.1% YoY (vs 4.9% YoY in 1H19). 9M19 annualized ROE fell 1.2ppts YoY to 14.6%.

- Results positives:**
 - 1) NIM widened 1bp QoQ** by our estimate, likely on decent management in funding cost and adjustment in liability structure. ABC's market-based funding (incl. interbank, debt, NCD) was up 5.5% in 3Q19.
 - 2) Loan growth remained healthy at 2.8% QoQ**, stronger than other SOE banks that disclosed 3Q19 results so far. Loans extended to county area saw faster growth (3.1% QoQ) than that of total loans.
 - 3) Solid asset quality trend.** The overall NPL ratio slid 1bp QoQ to 1.42%, the 13th consecutive quarterly decline. In particular, NPL ratio of county area banking business fell 7bps QoQ to 1.75%. Provision coverage climbed 2.9ppt QoQ to 281.3%, the highest among Big-4 banks, offering greater room to reduce credit cost.
 - 4) Capital adequacy improved.** CET1/tier-1/total CAR edged up by 6bps/83bps/62bps QoQ to 11.19%/12.50%/16.10%, following the RMB 120bn perpetual bonds issuance.
- Results negatives:**
 - 1) 3Q19 revenue declined 0.2% YoY**, as trading and investment return dropped 40% YoY due to decrease in net gain on principal guaranteed WMPs, while net interest income and net fee income were largely stable.
 - 2) 3Q19 opex rose 4.5% YoY**, leading to a higher CIR of 32.7%.
 - 3) Deposits growth was soft at 1.0% QoQ**, slower than loan growth, thus LDR rose 1.2ppts to 71.2%.
- Maintain BUY and raise TP to RMB 5.1.** ABC-A currently trades at 0.74x FY19E P/B, similar to its past 5-year mean of 0.75x. We kept our earnings forecast unchanged and rolled forward the valuation basis to FY20. Our new RMB 5.1 TP is derived from 0.94x target P/B and FY20E BVPS of RMB 5.4.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income (RMB mn)	520,346	584,905	632,752	678,139	731,846
Net profit (RMB mn)	192,962	202,783	213,689	227,778	245,591
EPS (RMB)	0.58	0.59	0.60	0.64	0.69
EPS CHG (%)	5.0	1.3	1.7	6.7	8.0
P/E (x)	6.3	6.2	6.1	5.7	5.3
P/B (x)	0.88	0.81	0.74	0.67	0.62
Dividend yield (%)	4.9	4.8	5.0	5.4	5.8
ROE (%)	14.6	13.5	12.6	12.3	12.2
NPL ratio (%)	1.81	1.59	1.47	1.45	1.45
Provision coverage (%)	208	252	283	301	311

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB 5.10
(Previous TP)	RMB 4.90
Up/Downside	+39.3%
Current Price	RMB 3.66

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	1,257,992
Avg 3 mths t/o (RMB mn)	753
52w High/Low (RMB)	3.94/3.38
Total Issued Shares (mn)	319,244 (A)
	30,739 (H)

Source: Bloomberg

Shareholding Structure

Huijin	40.03%
MoF	35.29%
NCSSF	6.09%

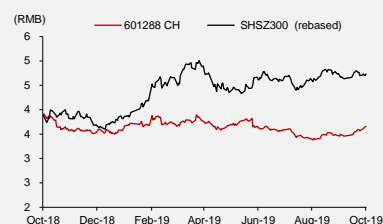
Source: Company data

Share Performance

	Absolute	Relative
1-mth	5.2%	6.0%
3-mth	1.7%	0.3%
6-mth	-3.2%	0.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Solid asset quality overshadowed by NIM contraction – 2 Sep 2019
- Moderate earnings pace with continued NIM pressure – 29 Apr 2019
- Funding strength is playing out – 29 Aug 2018

Figure 1: 3Q19 results summary

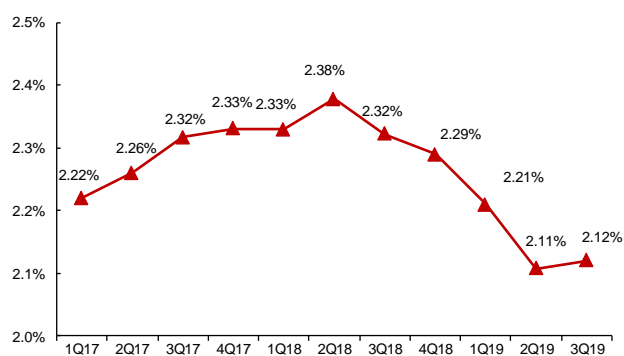
(RMB mn)						
P&L	9M18	9M19	YoY	3Q18	3Q19	YoY
Net interest income	355,415	360,473	1.4%	121,582	122,841	1.0%
Net fee and commission income	62,362	69,857	12.0%	18,725	18,958	1.2%
Operating income	446,193	458,344	2.7%	152,187	151,936	-0.2%
Operating expense	(133,613)	(136,815)	2.4%	(47,596)	(49,721)	4.5%
PPoP	312,580	321,529	2.9%	104,591	102,215	-2.3%
Impairment losses	(102,558)	(104,163)	1.6%	(36,115)	(30,736)	-14.9%
Pre-tax profit	210,022	217,366	3.5%	68,476	71,479	4.4%
Income tax	(38,247)	(35,531)	-7.1%	(12,671)	(12,041)	-5.0%
Net profit	171,611	180,671	5.3%	55,822	59,226	6.1%

B/S	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Gross loans	11,775,006	13,322,554	13.1%	12,962,302	13,322,554	2.8%
Customers' deposits	17,299,684	18,723,954	8.2%	18,529,174	18,723,954	1.1%
Total assets	22,700,325	24,870,961	9.6%	23,975,153	24,870,961	3.7%
NPLs	188,258	188,236	0.0%	185,312	188,236	1.6%

Key ratios	9M18	9M19	YoY	2Q19	3Q19	QoQ
NIM	2.34%	2.15%	-19bp	2.11%	2.12%	1bp
ROE	15.8%	14.6%	-1.2ppt	14.6%	14.1%	-0.5ppt
NPL ratio	1.60%	1.42%	-18bp	1.43%	1.42%	-1bp
Provision coverage	254.9%	281.3%	26.3ppt	278.4%	281.3%	2.9ppt
LDR	68.1%	71.2%	3.1ppt	70.0%	71.2%	1.2ppt
CET-1 CAR	11.3%	11.2%	-13bp	11.1%	11.2%	6bp

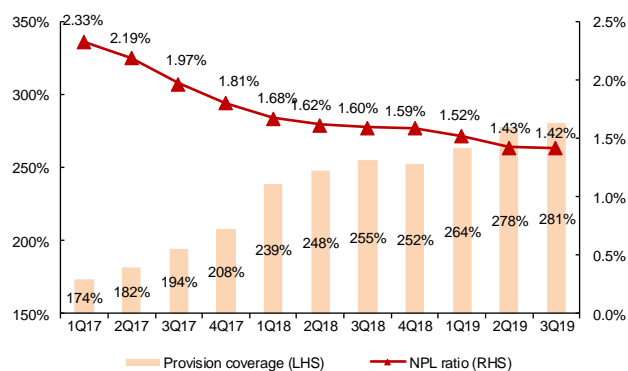
Source: Company data, CMBIS

Figure 2: Quarterly NIM of ABC



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of ABC



Source: Company data, CMBIS

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest income	713,699	784,724	876,050	945,249	1,020,419
Interest expenses	(271,769)	(306,964)	(353,970)	(386,209)	(416,757)
Net interest income	441,930	477,760	522,080	559,040	603,662
Net fee income	72,903	78,141	85,955	92,832	100,258
Others	5,513	29,004	24,717	26,267	27,925
Operating income	520,346	584,905	632,752	678,139	731,846
Operating expenses	(182,716)	(196,311)	(214,270)	(231,814)	(251,919)
PPoP	337,630	388,594	418,482	446,325	479,927
Provision	(98,166)	(136,898)	(153,241)	(163,585)	(175,062)
Operating profit	239,464	251,696	265,241	282,740	304,864
Non-operating income	14	(22)	(22)	(22)	(22)
Pre-tax profit	239,478	251,674	265,219	282,718	304,842
Income tax expenses	(46,345)	(49,043)	(51,683)	(55,092)	(59,404)
Minority interests	(171)	152	152	152	152
Net profit	192,962	202,783	213,689	227,778	245,591

Key Ratio

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Op. income mix					
Net interest income	85%	82%	83%	82%	82%
Net fee income	14%	13%	14%	14%	14%
Others	1%	5%	4%	4%	4%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	11.0%	8.1%	9.3%	7.1%	8.0%
Net fee income	-19.8%	7.2%	10.0%	8.0%	8.0%
Operating income	4.3%	12.4%	8.2%	7.2%	7.9%
PPoP	7.8%	15.1%	7.7%	6.7%	7.5%
Net profit	4.9%	5.1%	5.4%	6.6%	7.8%
Gross loans	10.3%	11.1%	12.0%	10.0%	10.0%
Customer deposits	7.7%	7.1%	8.5%	8.5%	8.5%

Efficiency

Cost-to-income ratio	34.2%	32.7%	32.8%	33.2%	33.4%
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Balance Sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Due from central banks	2,788,122	2,705,858	2,921,390	3,155,242	3,408,972
Interbank assets	1,175,900	1,032,742	1,084,379	1,138,598	1,195,528
Investments	6,152,743	6,885,075	7,390,844	7,889,431	8,401,895
Gross loans	10,720,611	11,913,625	13,373,567	14,710,924	16,182,016
Less: provision	404,300	479,143	561,959	647,616	737,206
Other assets	620,306	551,314	572,931	648,466	650,349
Total assets	21,053,382	22,609,471	24,781,153	26,895,045	29,101,555
Due to central banks	465,947	561,195	589,255	618,717	649,653
Interbank liabilities	1,779,849	2,085,831	2,322,200	2,505,943	2,705,439
Customer deposits	16,194,279	17,346,290	18,820,725	20,420,486	22,156,228
Debt securities issued	269,748	301,806	489,837	489,837	489,837
Other liabilities	914,162	639,562	696,123	758,006	825,715
Total liabilities	19,623,985	20,934,684	22,918,139	24,792,989	26,826,872
Shareholders' equity	1,426,415	1,670,294	1,858,521	2,097,563	2,270,190
Incl. Perpetual bonds	-	-	40,000	120,000	120,000
Incl. Preferred stocks	79,899	79,899	79,899	79,899	79,899
Minority interest	2,982	4,493	4,493	4,493	4,493
Total equity	1,429,397	1,674,787	1,863,014	2,102,056	2,274,683

Asset quality

NPL ratio	1.81%	1.59%	1.47%	1.45%	1.45%
Provision coverage	208%	252%	283%	301%	311%
Provision/ total loans	3.77%	4.02%	4.20%	4.40%	4.56%
Credit costs	0.91%	1.15%	1.16%	1.11%	1.08%

Capital adequacy

CET-1 CAR	10.6%	11.6%	11.7%	11.7%	11.8%
Tier-1 CAR	11.3%	12.1%	12.2%	12.2%	12.3%
Total CAR	13.7%	15.1%	14.6%	14.8%	14.9%

Profitability

NIM	2.28%	2.33%	2.20%	2.16%	2.15%
ROE	14.6%	13.5%	12.6%	12.3%	12.1%
ROA	0.93%	0.91%	0.88%	0.86%	0.86%
RoRWA	1.54%	1.51%	1.45%	1.42%	1.42%

Per share

EPS (RMB)	0.58	0.59	0.60	0.64	0.69
DPS (RMB)	0.18	0.17	0.18	0.20	0.21
BVPS (RMB)	4.15	4.54	4.97	5.42	5.92

Source: Company data, CMBIS estimates

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